GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES

PUBLIC SERVICES COMMISSION

IN THE MATTER OF THE LEVELIZED	)	
ENERGY ADJUSTMENT CLAUSE OF THE	)	
VIRGIN ISLANDS WATER AND	)	PSC DOCKET 289
POWER AUTHORITY	)	ORDER NO. 38/2006

ORDER SETTING LEVELIZED ENERGY ADJUSTMENT CHARGES

WHEREAS, the Virgin Islands Public Services Commission ("Commission" or "PSC") has a long established mechanism, the Levelized Energy Adjustment Charge ("LEAC"), through which the Virgin Islands Water and Power Authority ("WAPA" or "Authority") may recover the necessary and prudent costs of fuel consumed to generate electricity and desalinate water; and

WHEREAS, in May 2006, WAPA submitted its report on recent consumption and its forecast for pricing and consumption going forward, and requested that the Commission set the LEAC rates for the period of July 1, 2006 through December 31, 2006; and

WHEREAS, at its June 2006 meeting the Commission considered WAPA's submissions in support of the rates requested for the the LEAC for the Period of July - December 2005, new LEAC period, and the report of the Commission's technical consultant, and took testimony from both WAPA and its consultants; and

WHEREAS, the Commission continued this item to the next meeting in July 2006; and

WHEREAS, at its July 2006 meeting the Commission took additional testimony from both the Authority and technical consultants regarding those submissions, including the Authority's submission dated as July 17, 2006; and

WHEREAS, WAPA and the Commission's Technical Consultants prepared and submitted a set of agreed minutes of their meeting on June 14, 2006;

NOW THEREFORE, IT IS ORDERED:

1. WAPA's Electric LEAC Factor should be increased from its current level of $0.195659 per kWh to $0.237047 per kWh.

2. WAPA's Water LEAC Factor is increased from $5.38 per kGal to $5.47 per kGal.

3. WAPA's request for an automatic one-month adjustment to future LEAC factors is denied.

4. WAPA Electric Line Losses for the first three periods covered by PSC Order 4/2005 have been excessive based on the standards contained in the PSC Order. The PSC disallows the increased cost of production as a result of the inability of WAPA to reduce the loss levels to conform to the previously set standards. The following table shows the impact on the excess cost to electric ratepayers for the periods covered by the PSC Order:

Table 2
Cost of Excessive Line Loss

Six-Month Period Ending:	Loss Target	Actual Loss	Excess Losses	Adjustment ($000s)
June 30, 2005	8.04%	9.60%	1.56%	$ 986
December 31, 2005	6.97%	8.68%	1.71%	1,066
June 30, 2006	6.84%	8.22%	1.38%	1,009
				$ 3,061

5. A correct measure of the level of water losses for the periods contained in the PSC Order is not available because WAPA has not filed the requisite information regarding uses of water. Such uses are noted on the last page of Attachment A of this report. To use the information provided in the LEACs would result in a loss measurement higher than the actual loss measured without quantification of uses such as fire hydrants, system flushing, Company Use etc. The PSC reserves the right to review the three periods listed in Table 2 of Georgetown's Report and make any adjustment required when the information is received.

6. Review of the Fiscal Year LEAC Audit for the twelve months ending June 30, 2005 indicates that WAPA has made the accounting adjustment to the opening

balance of deferred fuel costs for the electric department for the disallowance of labor expenses consistent with the Commission's decision at its June 2005 meeting. A total disallowance of $160,000 of deferred fuel expenses was ordered by the PSC and recorded by its auditors. WAPA should submit a full annual audit of the LEAC for Fiscal Year ending June 30, 2006 as soon as possible after the close of the books for the fiscal year. Such audit should be in the same detail of the prior LEAC audits and should confirm that WAPA has complied with the order in this proceeding. WAPA should provide the information for losses and uses of both electric and water production so that a correct measurement of the losses for the year can be performed.

7. Costs for the regulatory review for Docket 289 should be recovered through the LEAC. The inclusion of these costs should be on-going with a portion of the Total Cost allocated to the water department. WAPA has suggested using Department Revenues divided by Total Revenues as the appropriate method for this allocation. That methodology is approved by the PSC.

8. The Technical Consultant and WAPA have come to agreement regarding the overcharge of customers under the surcharge from street lights. As a compromise, WAPA has agreed to reduce the level of deferred fuel by $1.6 million. This item has not been recognized by WAPA on its books and therefore not recognized in the LEAC filing. An accounting adjustment be made to the deferred fuel balance as agreed to by WAPA shall be made.

9. WAPA shall submit to the PSC its filing for a January 1, 2007 adjustment to the LEAC Factors that will become effective for the six months ending June 30, 2007. This filing should be received by the PSC and its Technical Consultant on or before November 15, 2006.

10. The Commission continues to be concerned with the relative level of inefficiency of the power production plants. While at the PSC's initiative many studies have been performed to examine the ways and means of implementing improvements to efficiency and diversity of fuel (the condition assessment study, for example), solutions are neither in place nor likely in the short-term. In addition, there appear to be no sound reasons why the solutions identified that justify themselves with economic payback could not have been implemented earlier. For example, the St Croix solution for the waste heat boiler could have been implemented earlier with significant savings of $2.5 million a month at current fuel prices to ratepayers.

11. WAPA's continued allowance of the LEAC factor is directly dependent on WAPA complying with all of the requirements of current and prior PSC Orders:
    a. No LEAC rate increase until WAPA provides condition assessment data in executable formats.
    b. Comply with the efficiency standard (heat rate) recommended by WAPA's Consultant HGI. Alternatively WAPA could make a good faith effort to hire a

Performance Management Contractor (PMC) to operate and maintain WAPA's plants at the proposed standards. The PMC compensation would be directly tied to meeting the required efficiency standards.

c. Implement the MAXIMO maintenance management system with a target in-service date of not later than July 1, 2007.
d. Comply with and provide evidence that all required maintenance is being performed on a current basis.
e. Comply with an accelerated in-service date for the new waste heat recovery boiler on St. Croix. This in-service date should be no later than July 1, 2007.
f. Provide the database from the Condition Assessment Study to the PSC Technical Consultant in executable format. Make available WAPA's Consultant, HGI, to provide reasonable assistance to the Technical Consultant with regard to understanding and utilizing the data base.
g. Provide a meaningful update of the Condition Assessment Study based on an initial current price of a barrel of oil at $73 per barrel rather than the $32 per barrel contained in the current version of the report. This should be provided no later than July 31, 2006.
h. Provide evidence that WAPA is making every effort to secure any source of generation that would lower rates consistent with the requirements of the WAPA system. The PSC should look to monthly updates on this issue. WAPA should immediately send an open indication of interest to any party of this interest.
i. Provide evidence that WAPA is soliciting proposals from Independent Power Producers (IPP), co-generators, Build, Operate and Transfer (BOT), or others for power supply resources that produce long-term cost savings and fuel diversity
j. Provide evidence that all of WAPA's actions are consistent with prudent actions for lowering LEAC and base rates.

12. WAPA is approved to utilize the $60,000 to purchase the demand-side management funds to purchase the 60 Watt compact fluorescent bulbs for distribution to the public.

DATED: July 18, 2006
Nunc pro tunc

ALECIA M. WELLS,
Chair